



Claire McCaskill

Missouri State Auditor

March 2005

City of Crestwood, Missouri

Year Ended June 30, 2003



Office Of The
State Auditor Of Missouri
Claire McCaskill

March 2005

The following problems were discovered as a result of an audit conducted by our office of the City of Crestwood, Missouri.

The city of Crestwood is in poor financial condition. It appears the city's expenditures have consistently exceeded revenues in the General Fund for the last several years. However, it appears the Board of Alderman may not have been completely aware of the severity of this problem until recently. In 2003, a forensic audit of the city of Crestwood was performed for the years ended June 30, 2002 and 2001, and concluded that transactions authorized by the former city administrator and former finance officer represented mismanagement of city funds and presented misleading financial information to the board.

The city has taken some steps to improve its financial position and/or to address control weaknesses noted by the forensic audit. The Board must continue to monitor the financial condition of the city and develop a long-range plan which will allow the city to reduce its expenditures and/or increase its revenues to operate the city with available resources.

Technology items totaling approximately \$37,500, and \$115,572 were purchased during the years ended June 30, 2003, and 2002 without proper bidding or board approval. Additionally, while technology items purchased through the internet did not exceed \$2,000 individually, the city did purchase enough of the parts to exceed the bidding threshold for the total purchased and within thirty days. There was no documentation that bids for these computer parts were obtained, that prices obtained through the internet were lower than local stores, or that personnel scanned internet sites for the lowest price. Also, the city had not established written policies documenting the required approval for purchases and the approval of the Board of Alderman and the director of finance/finance officer was not properly documented for some city purchases.

The city does not have adequate documentation to support \$75,300 paid to the former City Administrator from December of 2002 through October 2003. In December 2002, the city entered into a reassignment agreement with the former city administrator changing his position to administrative advisor and agreeing to pay him his current salary less standard deductions until March 1, 2004. The current City Administrator/Police Chief indicated that he met with the administrative advisor a few times a month to discuss history, organization, and various policies of the city; however, these meetings and/or discussions were not documented. This agreement was terminated by the city in October 2003, and a lawsuit was filed against the former city administrator in November 2003.

(over)

YELLOW SHEET

The \$830 monthly car allowance paid to the City Administrator/Police Chief does not appear to be reasonable or well supported, and the city had no written policies for travel expenses or charges for local meals.

The city does not have written policies or procedures for the approval of severance packages paid to employees. Without written policies and procedures the Board cannot readily ensure severance packages are reasonable and a prudent use of city monies.

The city did not monitor the profit or loss of the aquatic center. The Finance Department did not generate any reports comparing the receipts and expenses of the aquatic center to monitor its profit or loss. The Parks and Recreation Department reported revenues of \$192,575 for the 2003 pool season and city records indicate \$299,138 in expenses for the same time period.

The Finance Department did not adequately monitor receipts of the Parks and Recreation Department. The Parks and Recreation Department deposits monies into city accounts and then files reports and documentation concerning the deposits with the Finance Department. Reports are reviewed by the Finance Department, but adequate verification work is not performed to ensure all monies collected by the Parks and Recreation Department are deposited and that prices established are adequate.

The city did not have adequate documentation for allocation of salaries between funds for the year ended June 30, 2003.

Also included in the report are recommendations related to the disposition of city property, fixed assets, accounting procedures, the administrative costs charged to the Transportation Development District, and the municipal court division.

All reports are available on our website: www.auditor.mo.gov

CITY OF CRESTWOOD, MISSOURI

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STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

To the Honorable Mayor
and
Members of the Board of Aldermen
City of Crestwood, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of Crestwood, Missouri. The city engaged Brown, Smith, Wallace LLC, Certified Public Accountants, to audit the city's financial statements for the year ended June 30, 2003. To minimize duplication of effort, we reviewed the report and substantiating working papers of the CPA firm. The scope of our audit of the city included, but was not necessarily limited to, the year ended June 30, 2003. The objectives of this audit were to:

1. Perform procedures to evaluate the petitioners' concerns.
2. Review internal controls over significant management and financial functions.
3. Review compliance with certain legal provisions.

To accomplish these objectives, we reviewed minutes of meetings, written policies, financial records, and other pertinent documents; interviewed various personnel of the city, as well as certain external parties; and tested selected transactions. Our methodology included, but was not necessarily limited to, the following:

1. We obtained an understanding of petitioner concerns and performed various procedures to determine their validity and significance.
2. We obtained an understanding of internal controls significant to the audit objectives and considered whether specific controls have been properly designed and placed in operation. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.
3. We obtained an understanding of legal provisions significant to the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide

reasonable assurance of detecting significant instances of noncompliance with the provisions. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the city's management and was not subjected to the procedures applied in the audit of the city.

The accompanying Management Advisory Report presents our findings arising from our audit of the city of Crestwood, Missouri.

A handwritten signature in black ink, reading "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" and last name "McCaskill" clearly distinguishable.

Claire McCaskill
State Auditor

May 3, 2004 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Thomas J. Kremer, CPA
Audit Manager:	Debra S. Lewis, CPA
In-Charge Auditor:	Carl E. Zilch, Jr.

MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

CITY OF CRESTWOOD
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1.	Financial Condition
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The city of Crestwood is in poor financial condition. It appears the city's expenditures have consistently exceeded revenues in the General Fund for the last several years as noted in the following chart. However, it appears the Board of Alderman may not have been completely aware of the severity of this problem until recently. Due to questions raised by the new city administrator in 2003, the accounting firm of Brown, Smith, and Wallace LLC was engaged to perform a forensic audit of the city of Crestwood for the years ended June 30, 2002 and 2001 at a cost of \$42,370. This forensic audit concluded that transactions authorized by the former city administrator and former finance officer represented mismanagement of city funds and presented misleading financial information to the board. As a result of the audit findings, the city restated its financial statements for 2002 and 2001.

Fiscal Year Ended <u>June 30,</u>	Revenues And <u>Transfers</u>	Expenditures And <u>Transfers</u>	Revenues Over(Under) <u>Expenditures</u>	Fund <u>Balance</u>
1999	\$8,102,327	8,522,539	(420,212)	768,181
2000	8,261,660	8,756,017	(494,357)	273,824
2001	8,807,025	9,034,921	(227,896)	45,928
2002	8,668,692	8,582,286	86,406	132,334
2001 Restated	8,557,025	9,034,921	(477,896)	(204,072)
2002 Restated	8,599,782	9,369,207	(769,425)	(973,497)
2003	8,454,967	9,353,115	(898,148)	(1,871,645)
2004 (Unaudited) ¹	10,376,354 ²	10,079,034	297,320	(1,574,325)

¹ These figures were obtained from the City's cash basis financial statements.

² This includes a \$1,000,000 entry to eliminate the Internal Services Reserve Fund.

Below are some of the concerns noted in the forensic audit:

- The city's Internal Service Fund was created by a \$1 million inter-fund transaction (book entry transaction only) within the General Fund in 1991. These funds were not transferred from the General Fund to the Internal Service Fund, but shown as a liability in the General Fund (due to other funds). The fiscal year 2001 financial statements reflected a transfer of \$250,000 from the Internal Service Fund to the General Fund. Per the Board resolution, the monies should have been accounted for as an inter-fund borrowing, not as a transfer.

- The former finance officer made a significant number of questionable journal entries for which there was little or no supporting documentation. The journal entries were used to transfer approximately \$786,921 in expenses from the General Fund to the Capital Improvement Sales Tax and the Park and Storm Water Funds in 2002. In at least one instance, revenue of \$68,910 was falsely created in order to overstate General Fund revenues.
- Transfers to the General Fund from the Capital Improvement Sales Tax and the Park and Storm Water Funds were in excess of the amounts approved by the board in the annual budget process. In addition, during the same period, the accounting records and audited financial statements had recorded these transfers as inter-fund borrowings, rather than inter-fund transfers. The sales tax funds are restricted funds and transfers should only be made to the General Fund to reimburse for specific related expenses.

Listed below are some of the steps taken by the city in order to improve its financial position and/or to address the control weaknesses noted by the forensic audit:

- In April of 2004, the Board approved eliminating the Internal Service Fund. This reduced the negative fund balance of the General Fund by \$1 million. In addition, the Board voted to establish a non-expendable trust account within the General Fund which would allow the city to accumulate cash reserves for emergency purposes. The goal of this fund is to reach a balance of \$1.5 million.
- The Finance Department has established procedures for documentation and approval of journal entries, see MAR finding number 6.A.
- The city has implemented a redesigned accounting structure which establishes project and cost codes for both payroll and accounts payable that will allow them to properly track recoverable costs incurred by the General Fund. In addition, the Board has voted to recapture some of the previous costs incurred by the General Fund.

In September 2003, the city obtained a revolving business note not to exceed \$1.25 million for General Fund operations. The ordinance for the original line of credit required the loan to be repaid by June 30, 2004; however, on May 25, 2004, the board approved extending the repayment of the line of credit for the full one year term made available to the city, until September 29, 2004. On September 14, 2004, the Board approved a new note for General Fund operations not to exceed \$2 million for the term September 29, 2004 through September 28, 2005. The new \$2 million line of credit paid the outstanding balance and accrued interest of approximately \$1,058,671 to close the first note. The city had paid approximately \$18,100 in interest on this line of credit

through September 30, 2004. As of October 7, 2004, the new line of credit was at a high balance of \$1,261,602.

In addition, for the year ended June 30, 2004, the city originally projected revenues of \$9,543,718 and expenditures of \$9,765,192, which reflected an increase in expenditures from the previous year. These amounts were later revised/amended to show projected revenues of \$9,151,983 and budgeted expenditures of \$9,642,229, which do not reflect a significant change from the prior year. The Board is now faced with some difficult decisions to stabilize the financial condition of the General Fund. The Board needs to review discretionary expenditures and efficiently use the resources available to the city.

The former city administrator and former finance officer did not prepare and present adequate financial reports to the Board to allow them to properly monitor the financial position of the city. City personnel indicated that previously the city's Finance Department submitted an operations report to the Board periodically, which would generally give information concerning projects, developments and events of the city. Currently, the Finance Department includes a schedule of bank account balances, an accounts payable report, and a payroll report to the Board monthly and a cash basis budget to actual statement quarterly.

The Board can not adequately monitor the financial position of the city without periodic budget to actual reports and complete financial reports. An adequate budget to actual report would help ensure budgets were not overspent and funds were available for expenditures. This report should include a reconciliation of the fund balances to the bank balances to allow the Board to ensure all funds are properly funded.

The Board must continue to monitor the financial condition of the city and develop a long-range plan which will allow the city to reduce its expenditures and/or increase its revenues to operate the city with available resources. The recommendations contained in the remaining MARs, if implemented, will help the city establish procedures to operate within its available resources.

WE RECOMMEND the Board of Aldermen continue to closely monitor the financial condition of the city, including reviewing budget to actual financial statements on a periodic basis. The Board of Aldermen should continue to work to develop a long-range plan to operate within its available resources.

AUDITEE'S RESPONSE

The City remains extremely concerned that the State Auditor has chosen to so briefly discuss the forensic audit, its findings and the many actions taken by the City beginning long before the results of that (forensic) audit were complete. The Auditor's reference to so few "steps" taken to address control weaknesses noted by the forensic audit fails to identify the timing and implementation of those, and many other significant steps, taken by the new administration beginning in December, 2002. We find the Auditor's quick summary of work that they did not

author to be an incomplete characterization of the thorough examination of practices by an independent source such as Brown Smith Wallace.

The City encourages the public to read the complete results of the independent forensic audit at <http://www.ci.crestwood.mo.us/departments/administrative/administrator.aspx> , or by reviewing a copy at the City Clerk's office, City of Crestwood, Government Center; 1 Detjen Drive, 63126.

For the year ended June 30, 2004, original projected General Fund revenues were \$8,587,971, plus Internal Service Fund transfers of \$955,747; totaling \$9,543,718. Additionally, the Board of Aldermen does not approve revenues when adopting the budget, as stated by the Auditor. The Board originally approved budgeted total General Fund expenditures of \$9,765,192 (Ordinance No. 3784).

In July, 2003 as the Administration was preparing appropriate documentation to close the prior fiscal year, we found it necessary to decrease the General Fund revenues after discovery of a history of gross overstatement of merchant license revenue by the prior administration. Consequently, the forecasted revenues were decreased by \$492,000. On April 13, 2004, the Board approved a long term annual payment to the General Fund from the Capital Improvements Fund in the amount of \$90,132, for recapturing prior year's labor costs. Finally, on April 23, 2004, General Fund revenues were reduced based upon actual receipts by \$30,000. These revisions adjusted the final General Fund revenue projection to \$8,156,103, plus revised Internal Service Fund transfers from the Capital Improvements and Park and Stormwater Funds in the amount of \$995,880; or a total of \$9,151,983.

The General Fund expense budget was amended by ordinances #3817 and #3831. The first amendment decreased the budget by \$11,394, which made corrections to reflect items already approved by the Board but not included in the budget document, classify expenditures between funds, and identify expenses approved by the Board but not carried forward correctly into Ordinance No. 3784. The second amendment increased the budget by \$305,951 for unanticipated expenses for legal fees, accounting fees, and insurance. These revisions adjusted the final General Fund expenses to \$9,642,229.

Long before the petition audit process began, the Board was faced with and has made difficult decisions to stabilize the financial condition of the General Fund. The annual operating budget of the City of Crestwood is viewed as a "living, breathing document" and is constantly reviewed against projections made well in advance of actual receipts and expenditures. From time to time, this administration believes it is necessary and appropriate to ask the Board or Aldermen to review and amend the operating budget as needed to reflect the actual implementation of the budget plan and to recognize the Board approved changes in our expense position.

The Director of Finance publishes a bi-monthly operations report and on a monthly basis provides a schedule of bank account balances, accounts payable and payroll report to the Board. On a quarterly basis, a cash basis budget to actual statement of revenues and expenditures is provided. In November, 2004 the Board approved the replacement of the City's financial software package. Once the software is fully implemented the Director of Finance will be able to publish monthly financial statements.

2.**Expenditures**

The city had not established written policies formally establishing the required approval for purchases and defining travel expenses, or adequate procedures to ensure that the required approval and bids were obtained for all purchases. In addition, the city had expenditures that did not appear to be a prudent use of public funds.

- A. Numerous technology items were purchased without proper bidding. City code section 2-124 requires all supplies and contractual services when the estimated cost thereof shall exceed \$10,000, shall be purchased by formal written contract from the lowest responsible bidder. In addition, it requires expenditures greater than \$2,000 (from any one person during any period of thirty days) and less than \$10,000 to be made on the open market (these open market purchases shall be based when possible on three competitive bids obtained by mail or telephone). Technology items totaling approximately \$37,500, and \$115,572 were purchased during the years ended June 30, 2003, and 2002 without proper bidding or board approval. Examples include:

<u>Description of Item</u>	<u>Price</u>
23 Inch Computer Monitor	\$3,813
Printer	3,914
Camcorder	2,084

The city also purchased a lot of technology items through the internet. Although the items did not exceed \$2,000 individually, the city did purchase enough of the parts to exceed the bidding threshold for the total purchased and within thirty days. City personnel indicated these items were purchased through the internet in an attempt to obtain lower prices. There was no documentation that bids for these computer parts were obtained, that prices obtained through the internet were lower than local stores, or that personnel scanned internet sites for the lowest price.

Formal bidding procedures for major purchases provide a framework for economical management of city resources and help ensure the city receives fair value by contracting with the lowest and best bidders. Competitive bidding helps ensure all parties are given an opportunity to participate in the city's business. Complete documentation should be maintained of all bids received and reasons why the bid was selected. If circumstances provide that bidding is not necessary or practical, such as sole source providers or emergency situations, the reasons for not soliciting bids in accordance with the city's policies should be documented.

- B. The city had not established written policies documenting the required approval for purchases. The approval of the Board of Aldermen and the director of finance/finance officer was not properly documented for some city purchases. City personnel indicated all purchases are required to be approved by the

department head and the director of finance and all purchases over \$2,000 are to be approved by the board. The city attaches a voucher sheet to invoices to be used to document the required approval for purchases. The voucher sheet contains the vendor's name, due date, amount of purchase, and approval of the purchase. The Board's approval was not documented for the technology purchases discussed in part A above. The director of finance/finance officer's approval was not documented for four of twenty five purchases reviewed during the two years ended June 30, 2004, as noted below:

<u>Description of Item</u>	<u>Price</u>	<u>Date</u>
Road work	\$132,612	July 18,2002
Cellular telephone services	1,393	December 18, 2003
Travel expenses	260	November 12, 2003
Building maintenance supplies	502	December 23, 2003

Formal written policies should be developed to establish the required approval for all city purchases. In addition, the city should develop procedures to ensure all expenditures have been properly approved.

C. The following expenditures do not appear to be a prudent use of public funds:

- 1) The city does not have adequate documentation to support \$75,300 paid to the former City Administrator from December of 2002 through October 2003. In December 2002, the city entered into a reassignment agreement with the former city administrator changing his position to administrative advisor and agreeing to pay him his current salary less standard deductions until March 1, 2004. Per this agreement, his duties were to provide services and advice to the interim city administrator, assist the city in the search for a permanent city administrator and perform other duties as needed by the city. The Chief of Police was appointed as City Administrator soon after the former administrator's resignation and a search for a new city administrator was never necessary. In addition, the current City Administrator/Police Chief indicated that he met with the administrative advisor a few times a month to discuss history, organization, and various policies of the city; however, these meetings and/or discussions were not documented. Such payments do not appear to be a prudent use of city monies.

This agreement was terminated by the city in October 2003, and a lawsuit was filed against the former city administrator in November 2003, regarding the problems noted in the forensic audit (see MAR finding number 1).

- 2) The \$830 monthly car allowance paid to the City Administrator/Police Chief does not appear to be reasonable or well supported. City personnel prepared an analysis estimating the monthly costs of owning and

maintaining a city vehicle. In September 2003, the Board of Aldermen voted to pay the City Administrator/Police Chief 80% of these costs or \$830 a month (80% of \$1,037). The city's analysis was based on a \$30,000 vehicle; however, it appears the city normally purchases vehicles costing approximately \$20,000. In addition, the city assumed the car would be fully depreciated in four years at 15,000 miles per year with no remaining value.

The table below shows the city's analysis and the American Automobile Association's (AAA) analysis for various priced vehicles:

<u>Cost of Vehicle</u>	<u>Depreciation</u>	<u>Insurance</u>	<u>Gas and Maintenance</u>	<u>Total Cost Annually</u>	<u>Cost Per Month</u>	<u>Remaining Value</u>
\$30,000 (city's)	\$7,500	\$1,200	\$3,750	\$12,450	\$1,037	\$0
27,000 (AAA's)	4,470	1,050	2,462	7,982	665	9,120
20,000 (AAA's)	3,693	1,075	2,156	6,924	577	5,228

The city does not report this car allowance on the City Administrator/Police Chief's W-2 because they have classified the vehicle as an unmarked police car. The Board should require the City Administrator/Police Chief to document his mileage and vehicle expense while conducting city business to ensure the reasonableness of the monthly allowance. The city should consider paying the vehicle expenses on a reimbursement basis rather than paying the current allowance.

In addition, the city did not properly dispose of the city-owned vehicle previously driven by the police chief by competitive sale. The Board of Aldermen voted to give the City Administrator/Police Chief the fleet vehicle that he had been using as payment for part of his accrued vacation time. The city used the "Kelley Blue Book" to determine the trade-in value of the vehicle which was \$7,230, however the city did not reflect this on the City Administrator/Police Chief's W-2.

- D. The city did not have written policies for travel expenses or charges for local meals. The city paid approximately \$17,600 for travel expenses during the year ended June 30, 2003. City personnel indicated employees receive a per diem of \$45 per day for meals and reimbursement for mileage at the federal reimbursement rate (if their personal vehicle is utilized); however, this policy was not formally documented. In addition, during the two years ended June 30, 2004, several meals purchased at local restaurants were not properly documented. The receipts submitted to the city for payment did not indicate the purpose of the meeting and who attended the meeting. Without this type of documentation, the city cannot ensure these meals were a prudent use of city funds.

Without written, documented policies, the types of expenses that can be incurred, the extent of those expenses which will be paid by the city, and the appropriate payment mechanism for the expenses may not be known.

WE RECOMMEND the Board of Aldermen:

- A. Ensure all purchases are bid in compliance with city policy.
- B. Establish formal approval requirements for all city purchases and develop procedures to ensure the required approval has been properly documented for all expenditures.
- C. Ensure all expenditures from city monies are a prudent use of public funds. The Board of Aldermen should review the reasonableness of the \$830 monthly vehicle allowance and consider reimbursing the actual costs incurred for vehicle expense of the City Administrator rather than paying the current allowance. The city should also ensure they properly dispose of city vehicles by advertising the sale of the vehicle and accepting sealed bids.
- D. Develop written travel and local meal policies that are reasonable and will allow all officials and employees to know what expenses can be incurred.

AUDITEE'S RESPONSE

A, B

&D. *The Mayor, Board of Aldermen and City Staff concur with the observations contained in the aforementioned findings. While we are pleased that the State Auditor confirmed what the current administration discovered and corrected beginning in December, 2002, we find it extremely disconcerting that the Auditor has not clearly delineated their observations with regard to timeframes. The manner in which the Auditor has chosen to present their findings creates confusion rather than clarity. The history of the City's current written and adopted purchasing ordinance is as follows:*

- *The City Administrator began drafting a purchasing policy in December, 2002.*
- *The Director of Finance received a full draft of the purchasing policy in March, 2003.*
- *Department Heads began their review of the purchasing policy in summer, 2003.*
- *The Ways and Means Committee formally received and began to review a revised draft of the purchasing policy on January 17, 2004.*
- *On February 24, 2004, the Board of Aldermen conducted a work session to discuss the purchasing policy with incorporated revisions suggested by the Ways and Means Committee.*
- *The Board referred the matter to a committee of the Board and City Administrator to incorporate recommendations from the Board.*
- *The Board of Aldermen passed an ordinance adopting the policy on May 25, 2004.*

The City understands the Auditor's unwillingness to accept this policy prior to adoption by the Board of Aldermen; however, the examined record made available to the Auditor and discussed on numerous occasions reveals a distinct change in administrative policy that the Auditor has chosen to ignore.

- C.1. The City strongly disagrees with the State Auditor's opinion regarding the reassignment agreement entered into with the former City Administrator. The City believes that the State Auditor has failed to recognize this personnel matter and has rendered this opinion with insufficient information. In addition to consulting services outlined in the reassignment agreement, the City received additional consideration in the form of a full release of all claims or potential claims arising out of the former City Administrator's employment or separation thereof. The City's research has revealed no Missouri case, statutory or regulatory law prohibiting such an agreement. The Auditor should not substitute their opinion in place of those of the duly elected local authority.*
- C.2. The \$830 monthly stipend paid to the Chief of Police/City Administrator is part of his negotiated compensation package. The Chief of Police receives no additional compensation for assuming the responsibilities of City Administrator. The City realizes a savings in excess of \$135,000 annually in wages and benefits through this agreement. At present the Chief of Police/City Administrator's compensation is 85% of the standard wage scale for the one position of City Administrator in this region.*

It has been a long-standing policy of the City, as is common practice in the form of compensation, to provide a vehicle for the City Administrator, Chief of Police, Fire Chief, Director of Public Works and to a limited extent, the Director of Parks and Recreation. Rather than provide a vehicle and assume all costs associated with the vehicle, the City chose to provide the stipend to the Chief of Police/City Administrator. Even using the numbers (without concurring with their appropriateness or accuracy) presented by the State Auditor, the savings to the City by not providing two vehicles are obvious and this Board does not agree with the Auditor's finding, or the attempt to substitute the judgment of the Auditor over the duly elected Board of Aldermen in this matter.

The city issued a corrected W-2 to the Chief of Police/City Administrator in the amount of \$7230 for accumulated vacation paid out.

3. Policies and Procedures

The city did not have a written policy or procedures for the disposition of city property or for approval of severance packages.

- A. The city did not have a written policy or procedure for the disposition of real estate or surplus city property. City personnel indicated they obtain appraisals and advertise for bids for the sale of real estate, trade-in or sell city vehicles at auction, and dispose of other city assets if they are exhausted or store them for

future use if they still have value. As noted in MAR finding number 2, the Police Chief's fleet vehicle was not properly disposed.

To ensure the best possible price is obtained for all items sold and to ensure all interested parties are given equal opportunity to participate, the city should develop a written policy or procedure for all real estate and surplus property sales. This policy should address how the city will handle the sale including the soliciting of bids and a professional appraisal for all real estate sales.

- B. The city does not have written policies or procedures for the approval of severance packages paid to employees. The city gave the former city engineer a three month severance package totaling \$23,747, which was approved by the Board and done through a written agreement. However, the former finance officer was paid for six additional weeks totaling \$8,367 upon his resignation but there was no written agreement and no documentation of board approval. City officials indicated this was not part of a formal severance package, but the former finance officer was paid for the additional weeks so the city would be able to ask him questions that they might have concerning city finances; however, there was no documentation to show whether the city personnel asked him additional questions.

Without written policies and procedures the Board cannot readily ensure severance packages are reasonable and a prudent use of city monies. The Board should establish policies and procedures on severance packages establishing who should approve the severance package.

WE RECOMMEND the Board of Aldermen:

- A. Develop a written policy or procedure for real estate property sales which would include soliciting bids, obtaining a professional appraisal, and documenting board approval. A written policy needs to be developed for surplus property so that all employees understand how surplus property should be handled and procedures on how the city is to dispose of city property. The city should solicit bids for all city equipment sold. In addition, board approval should be obtained and documented for the disposal of city equipment.
- B. Develop policies and procedures on severance packages.

AUDITEE'S RESPONSE

- A. *The City's adopted purchasing policy addresses the issue of surplus property. The City will take into consideration the Auditor's recommendation with regard to developing a written policy for the disposition of real estate.*
- B. *The State Auditor has failed to draw the distinction between exempt employees (City Administrator and Department Heads) and those identified in the classified service (all*

other employees). Rules are specifically written for those in the classified service and exceptions to those rules are at the discretion of the Board of Aldermen, as was applied in the case of the former Finance Officer. The City disagrees with the State Auditor with regard to a formal written policy regarding exempt employees and believes that each of these rare circumstances requires specific and individual consideration by the Board.

Again, personnel matters are reviewed, considered and approved by the Board of Aldermen, and the State Auditor should not be substituting their judgment for that of the duly elected Board of Aldermen regarding these matters.

4. Parks and Recreation Department

The city did not adequately monitor the profit or loss of the aquatic center or the revenues of the Parks and Recreation Department.

- A. The city did not monitor the profit or loss of the aquatic center. The Parks and Recreation Department prepared reports of receipts generated from pool passes, daily admissions, concessions, etc. of the aquatic center based on the pool season, which would be the summer months of the year. The Finance Department did not generate any reports comparing the receipts and expenses of the aquatic center to monitor its profit or loss. The Parks and Recreation Department reported revenues of \$192,575 for the 2003 pool season and city records indicate \$299,138 in expenses for the same time period. The city should periodically prepare and file with the Board, a report comparing the receipts and expenses of the aquatic center to ensure the Board of Aldermen is adequately aware of the profit or loss of the center when approving the pool rates.
- B. The Finance Department did not adequately monitor receipts of the Parks and Recreation Department. The Parks and Recreation Department receives monies for pool passes, pool concessions, community center passes, recreation programs, and room and field rentals. Revenues from the Parks and Recreation Department were approximately \$586,000 and \$141,000 for the year ended June 30, 2003 and 2002, respectively. The Parks and Recreation Department deposits these monies into city accounts and then files reports and documentation concerning the deposits with the Finance Department. These reports are reviewed by the Finance Department, but adequate verification work is not performed to ensure all monies collected by the Parks and Recreation Department are deposited and that prices established are adequate. Passes to the aquatic center and community center are not prenumbered, thus the Finance Department cannot compare the number of passes sold to the receipts for the year. In addition, no one reviews the cost of goods sold for the aquatic center concessions. These types of reviews would allow the city to analytically review revenues received by the Parks and Recreation Department for reasonableness.

WE RECOMMEND the Board of Aldermen:

- A. Require reports on the profit or loss of the aquatic center to be prepared and filed with the board for their use in approving pool rates.
- B. Ensure procedures are established by the Finance Department to adequately monitor revenues received from the Parks and Recreation Department.

AUDITEE'S RESPONSE

The current administration has completely revised the manner in which all Parks and Recreation revenues and expenditures are monitored and recorded. This administration found the inappropriate "netting" of revenues against expenditures and the lack of expenditure control with regard to these systems. As the State Auditor has seen, these issues, together with appropriate monitoring of the aquatic center profit or loss, has been revised and implemented.

The City recognizes the recommendation of the State Auditor with regard to pre-numbering aquatic center and community center passes and will implement this recommendation in 2005.

5. Fixed Assets

The city had not adequately prepared and maintained permanent, detailed property records for general fixed assets. The city recently completed a general fixed asset listing for their fiscal year 2003 audit, but it had not been updated for purchases made in fiscal year 2004. In addition, the city's general fixed asset listing did not contain information on how items were disposed and the dates of the disposition. The city could not locate a general fixed asset listing prior to the one prepared during their fiscal year 2003 audit.

Property records for general fixed assets are necessary to ensure accountability for all items purchased and owned and for determining the proper amount of insurance coverage. The city should properly record all fixed asset transactions, and ensure the accuracy of the recorded fixed assets. Periodically, the city should take physical counts of its assets and compare to the detailed records.

WE RECOMMEND the Board of Aldermen require the city to maintain property records for general fixed assets that include all pertinent information for each asset, such as a tag number, description, cost, acquisition date, location, and subsequent disposition. In addition, annual physical inventories should be performed.

AUDITEE'S RESPONSE

Fixed asset purchases in 2004 have been added to the fixed asset listing and were available prior to the annual independent audit. These additions were completed manually due to limitations in the existing software which prevent the appropriate link between accounts payable and fixed

assets. The City acquired new software at the end of 2004 and this process will heretofore be automated. Annual spot-check inventories will be conducted in concert with the City's annual independent audit.

6. Accounting Procedures

The city had not properly enforced procedures for journal entry review and approval. In addition, the duties of maintaining the municipal court bank account were not adequately segregated.

- A. As documented in MAR finding number 1, previously the city did not have procedures for the documentation and approval of journal entries. The current City Administrator and Director of Finance have established procedures which require all journal entries be documented and approved; however, journal entries prepared by the accounts payable clerk were not being properly reviewed and approved in compliance with these procedures. The city needs to ensure all journal entries are properly documented and approved in compliance with city policy. To reduce the risk of loss, theft, or misuse of funds, all journal entries should be properly documented and reviewed for propriety.
- B. The duties of maintaining the municipal court bank account were not adequately segregated. The accounts payable clerk in the Finance Department receives the transmission of monies from the municipal court, makes deposits, performs the bank reconciliation, and makes disbursements. There is no documented supervisory review of the bank reconciliation.

Internal controls would be improved by segregating the duties of performing the bank reconciliation from the other duties of court transmissions and the disbursements. If proper segregation of duties cannot be achieved, at a minimum, there should be an independent review of the bank reconciliations.

WE RECOMMEND the Board of Aldermen:

- A. Ensure all journal entries are properly documented and approved.
- B. Segregate the duties of performing the bank reconciliation from the other duties of court transmissions and disbursements.

AUDITEE'S RESPONSE

- A. *City Staff has implemented a policy that includes a hierarchy of approvals with proper segregation of duties with regard to journal entries. This policy, which was initiated in January, 2004, was fully implemented beginning March, 2004. The State Auditor has located accounts payable omissions occurring in March, 2004. The City will continue to monitor its policies and adherence thereto.*

- B. *The State Auditor was also informed that these internal controls were in the process of implementation in January, 2004, prior to the beginning of their fieldwork. The City does not understand the reason for this finding since the Auditor was made aware that these written policies and procedures were fully implemented in February 2004, which was several months prior to the completion of their fieldwork on May 19, 2004.*

7. Restricted Revenues

The city does not have adequate documentation for allocation of salaries between funds for the year ended June 30, 2003. In 2003, the city transferred \$150,000 from the Capital Improvement Sales Tax Fund to the General Fund for personnel costs. This transfer was to cover the cost of in-house engineering for the design and construction of street improvements. The city does not have any documentation, such as time studies, to support these allocations of salary for fiscal year 2003. A formal study on the allocation of salaries was performed by the city in 2004.

The funds of the city are established as separate accounting entities to account for specific activities of the city. Reflecting revenues and expenses in the proper fund is also necessary to accurately determine the results of operations of specific activities, thus, enabling the city to establish the level of taxation and/or user charges necessary to meet all operating costs. In addition, generally accepted accounting principles and various legal restrictions require revenues and expenses associated with specific activities be reflected in the fund established to account for those activities.

WE RECOMMEND the Board of Aldermen ensure all expenditures are properly allocated to the various funds and are supported by adequate documentation.

AUDITEE'S RESPONSE

The City concurs with the finding as stated. The new administration has established formulae and began implementation beginning with the budget for the fiscal year period beginning July 1, 2003 (fiscal year 2004) to identify overhead costs. These formulae have been reviewed and approved by the City's independent auditor as to form and rationale for overhead recapture from the Capital Improvements and Park and Stormwater Funds, and are reviewed annually by the Board of Aldermen as they consider adoption of the annual operating budget.

8. Transportation Development District

The city did not estimate the administrative costs to collect and deposit the sales tax revenues for the Transportation Development District prior to establishing the fee for these duties. In addition, city personnel indicated they had not planned to track the costs. In November 2003, the city entered into an intergovernmental agreement with the Crestwood Point Transportation Development District (TDD) to collect and deposit the TDD sales tax for a fee of 1% of the amount collected. Section 238.233, RSMo,

indicates the city "after deducting the cost of such collection but not to exceed one percent of the total amount collected" shall turn the funds collected over to the district.

A formal cost study should be conducted to document the costs of the service. The administrative fee charged to the TDD Sales Tax should be set at a level sufficient to cover the cost of the service and not exceed the actual administrative cost or 1% of the amount collected.

WE RECOMMEND the Board of Aldermen review the city's cost of administering the collection of TDD sales tax to ensure compliance with state law.

AUDITEE'S RESPONSE

The City not only disagrees with this finding, but questions why it is contained in the report. The City, Project Developer and TDD Board have entered into an industry standard formal agreement stating that a 1% administrative fee shall be charged against the taxes collected. This matter has been thoroughly researched by professional staff, corporate counsel and bond counsel, each of whom believes this is in conformance with, and not contrary to, Section 238.233, RSMo.

AUDITOR'S COMMENT

State law clearly indicates this fee is not to exceed the actual administrative costs.

9.

Municipal Court Division

The duties of receiving, recording, and transmitting court receipts are not adequately segregated, receipt slips are not obtained by the municipal court for monies transmitted to the city, the municipal division does not always issue prenumbered receipt slips or account for the numerical sequence of receipt slips, and several concerns were noted regarding the handling of bonds. In addition, the municipal division's receivable report does not properly reflect the amount due on some cases, the police department does not maintain adequate records to account for parking ticket books assigned to officers, and the municipal division has not established procedures to follow-up on unpaid parking tickets.

- A. The duties of receiving, recording, and transmitting court receipts are not adequately segregated. The court clerks receive payments and perform all of the duties related to recording transactions and transmitting monies to the Finance Department. The Court Administrator indicated he performs a review of the cash custody and record-keeping functions, but there is no documentation of this review.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurances that all transactions are accounted for properly and

assets are adequately safeguarded. Internal controls would be improved by segregating the duties of receiving and transmitting court monies from that of recording receipts. If proper segregation of duties cannot be achieved, at a minimum there should be a documented supervisory review of reconciliations between receipts and transmittals to the city.

B. The following concerns were noted regarding fines and court costs:

- 1) Receipt slips are not obtained for court monies transmitted to the city. The court transmits fines and court costs collected to the city for deposit into the city treasury. To provide assurance all monies have been transmitted and allow reconciliation of municipal division transmittals to city records, a receipt slip should be obtained from the city for each transmittal of court monies.
- 2) The municipal division does not always issue prenumbered receipt slips immediately upon receipt and does not account for the numerical sequence of manual or computer generated receipt slips. The municipal division accepts cash, credit cards, and money orders for payment of fines and costs. Most collections are recorded directly into the court's computer system and a computer-generated receipt slip is issued to the payor. However, manual receipt slips are issued to walk-in payors when payments can not be recorded directly into the system. These manual receipt slips are not always prenumbered. Prenumbered receipt slips should be issued for all monies received and their numerical sequence accounted for properly to ensure monies are properly recorded and deposited.

C. The following concerns were noted regarding bonds:

- 1) As of March 19, 2004, the open items (liabilities) listing totaled \$525 less than the \$21,063 in the municipal division bond account. The municipal division handles the receipt and disbursement of bond monies. The court's computer system can generate a listing of open items; however, the listing is not generated on a regular basis and is not reconciled to the bond bank account. Monthly reconciliations of open items to the reconciled bank balance are necessary to ensure proper accountability over open cases and to ensure monies held in trust by the court are sufficient to meet liabilities.

In addition, an attempt should be made to determine the proper disposition of these excess monies. For those monies which remain unclaimed, Section 447.595, RSMo, requires funds remaining unclaimed for one year after disposition of the case to be turned over to the state's Unclaimed Property Section.

- 2) Prenumbered bond forms issued by the police department serve as the receipt slip to the defendant. However, the original copies of voided bond forms are not retained. To account for all monies received, copies of voided bond forms should be retained. In addition, the numerical sequence of the bond forms should be accounted for properly.
 - 3) The police department accepts cash for bonds. The municipal division does not issue receipt slips for bond monies received from the police department. To document the monies have been transmitted, a receipt slip should be issued to the police department for each bond transmittal.
- D. The fines and costs receivable report does not properly reflect the balance due on some cases. The court allows defendants to make partial payments for fines and costs. The balances due for each case are maintained on the computer system; however, the computerized receivables report reflects the original fine and cost amount, not the current amount due after applying the partial payments. An accrued cost listing, which summarizes amounts paid, would allow the municipal division to more easily review the amounts owed to the court and take appropriate steps to follow up on initial billings to ensure all amounts owed are collected on a timely basis.
- E. The police department does not maintain adequate records to account for parking ticket books assigned to officers. Parking ticket books do not have a log to record the numerical sequence of these books as they are assigned to officers.

Without a proper accounting for the numerical sequence and ultimate disposition of tickets, the police department and the municipal division cannot be assured all tickets issued are properly submitted to the court for processing. Properly maintained logs would ensure accountability of all tickets as well as their ultimate disposition.

- F. The municipal division has not established procedures to follow-up on unpaid parking tickets. Currently, the court files the unpaid parking tickets in no certain order, and no further action is taken. Parking tickets received from the Police Department are not entered into the court's computer system until the individual pays the fine. The court does not know how much there is in unpaid parking tickets and there are no procedures to follow-up on these unpaid tickets.

The court should institute procedures to collect amounts owed. In addition, the court needs better organization of the unpaid parking tickets which is necessary to facilitate monitoring of amounts due to the court, provide information to the Municipal Judge, and provide increased accountability over amounts due to the court. Also, the court should consider implementing procedures for writing off old un-collectible parking tickets.

- G. The municipal division does not retain all of the court dockets after dispositions are recorded. The municipal division was unable to produce many of the court

dockets requested. The court could not locate the court dockets for 13 of 18 applicable cases reviewed.

Supreme Court Rule 8 requires all municipal ordinance case files be maintained for three years after the date of filing and financial records be maintained for five years or upon completion of an audit.

WE RECOMMEND the city of Crestwood Municipal Court Division:

- A. Adequately segregate the duties of receiving, recording, and transmitting court monies. At a minimum, there should be a documented supervisory review of reconciliations between receipts and transmittals to the city.
- B.1. Obtain receipt slips for all monies transmitted to the city.
 - 2. Require prenumbered manual receipt slips to be issued for all monies received, and ensure the numerical sequence of all receipt slips is accounted for properly.
- C.1. Reconcile the open items listing to the reconciled bank balance monthly. In addition, the municipal division should attempt to identify to whom the \$525 belongs and disburse the funds appropriately. If this cannot be determined, the excess monies should be turned over to the state's Unclaimed Property Section in accordance with state law.
 - 2. Retain all copies of voided bond forms and account for the numerical sequence.
 - 3. Issue prenumbered receipt slips to the police department for all bond monies received from the police department.
- D. Ensure the fines and costs receivable report reflects the current amounts due on all cases.
- E. Work with the police department to ensure parking ticket books are assigned to officers in numerical order and records are maintained to account for the numerical sequence of all books assigned.
- F. Maintain parking ticket files, or a log, which would enable parking tickets to be located by parking ticket number. Establish adequate procedures to collect parking fines owed the court and write off uncollectible amounts.
- G. Ensure that all court records and documents are retained in accordance with Supreme Court rule.

AUDITEE'S RESPONSE

- A. *Beginning in October, 2003, the Court Administrator reviews all fines/costs and bond monies that were received by the court and transferred to the city for deposit and/or disbursement. This function is considered to be one of the primary responsibilities of the Court Administrator. To better document these reviews, beginning in May, 2004 the Court Administrator now initials the transaction receipts and daily balance sheets to indicate his review.*
- B.1. *In May, 2004, the court began requiring a receipt from the Finance Department for money received from the court, whether fines/costs or bond money. The court staff verifies the receipt against the deposit slip from the bank when the deposits are completed. The Court Administrator also reviews these transactions as stated in response #10A.*
- B.2. *Effective May, 2004, the Violations Bureau no longer issues hand receipts for walkup payments. Receipts are generated by IMDS, the court's computer system. On a monthly basis, the Court Administrator reviews the sequential numbering of the generated receipts from IMDS.*
- C.1. *In March, 2004, the Court began a comprehensive review of the bond account. It was determined that the REJIS court software program, IMDS, installed in October, 2000, was unable to balance against the existing bond account.*
- Court staff researched deposit records and found documentation that the Court account was opened on September 15, 1994, with a \$100.00 deposit. Since March, 2004, the monthly reconciliation of the bond account has carried the overage amount of \$525.00. Therefore, the Court will forward the amount of \$425.00 to the State Treasurer's Unclaimed Property Division in 2005, as required by law.*
- C.2. *The Police Department does maintain a database of all bond forms issued. The Police Department command staff, along with the Court Administrator, conducted refresher training with all personnel regarding the importance of retaining voided bond forms. The Police Records Clerk is responsible for maintaining voided materials, including bond forms.*
- C.3. *The Court is satisfied with the procedures currently in place regarding the transmittal of bond money from the Police Department to the Court. Numerous safeguards, including video and audio recording of bond transactions, the issuing of a bond receipt to the defendant, the issuing of a bond receipt to the court, and a copy of the bond receipt to the police file are part of current procedures.*
- D. *An accrued cost listing report was a function not supported by the court's computer system. In May, 2004, the Court Administrator requested and assisted in the development of a user-wide enhancement to IMDS. The new report captures all outstanding money owed to the court along with defendant names and case numbers. The report reflects the*

original amount owed and the current amount unpaid. The report accounts for partial payments received, and includes an aging report, i.e. 30, 60, 90, and 120 days.

- E. The procedure used to track the issuance of parking ticket books was changed to ensure the accountability of each book issued.*
- F. In October, 2003, no specific procedures were in place to account for unpaid parking tickets. In May, 2004, a comprehensive procedure was developed and implemented by the Court. The procedure requires the sequential filing of the violations by month and number, and 30-day notice letters and entry into IMDS for future adjudication by the Court. The Court staff entered and sent notices on all parking tickets issued after January 1, 2004 up to May, 2004. Tickets issued prior to January, 2004 will be submitted to the Municipal Judge to be deemed un-collectible.*
- G. As of October, 2003, the Court was in compliance with Supreme Court Rule 8 and makes readily available all court dockets, financial records and case files.*

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

CITY OF CRESTWOOD, MISSOURI
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The city of Crestwood is located in St. Louis County. The city was incorporated in 1949 as a fourth class city. In 1995, the city became a Home Rule Charter city. The population of the city in 2000 was 11,863.

The city government consists of a mayor and eight member board of aldermen. The members are elected for three-year terms. The mayor is elected for a three-year term, presides over the board of aldermen, and votes only in the case of a tie. The Mayor, Board of Aldermen, and other principal officials during the year ended June 30, 2003, are identified below. The Mayor is paid \$700 per month and Board of Aldermen members \$350 per month. The compensation of these officials is established by ordinance.

Mayor and Board of Aldermen	Dates of Service During the Year Ended June 30, 2003
James E. Robertson, Mayor (1)	July 2002 – June 2003
Richard D. LaBore, Alderman	July 2002 – June 2003
Richard P. Breeding, Alderman (2)	July 2002 – June 2003
Timothy V. Trueblood, Alderman	July 2002 – June 2003
Gary L. Vincent, Alderman (3)	July 2002 – June 2003
Franklin D. Maddox, Alderman	July 2002 – June 2003
Bernice S. Alexander, Alderman	July 2002 – June 2003
(4)	
Thomas E. Fagan, Alderman (5)	July 2002 – June 2003
Patricia Duwe, Alderman (2)	July 2002 – June 2003

Other Principal Officials	Dates of Service During the Year Ended June 30, 2003	Compensation Paid for the Year Ended June 30, 2003
Donald E. Greer, City Administrator (6)	December 2002 to June 2003	\$ 0
D. Kent Leichliter, City Administrator (7)	July 2002 to December 2002	91,056
Diana Madrid, Director of Finance and Administration	March 2003 to June 2003	18,109
Robert Wuebbels, Finance Officer	July 2002 to January 2003	80,151
Donald E. Greer, Chief of Police(6)	July 2002 to June 2003	95,384
Karl Kestler, Chief of Fire Services	July 2002 to June 2003	75,712
Mark Payken, Director of Public Works (8)	July 2002 to June 2003	79,411
Lisa Blumer, Director of Parks and Recreation	July 2002 to June 2003	60,208
Carol Schneiderhahn, City Clerk	July 2002 to June 2003	63,746
Doug Mosby, Court Administrator (9)	October 2003 to June 2004	40,427
Cathy Roettering, Court Clerk	July 2002 to June 2003	36,237
John Newsham, Municipal Judge	July 2002 to June 2003	6,600
Rob Golterman, City Attorney	July 2002 to June 2003	95,666
Matthew Reh, Prosecuting Attorney	July 2002 to June 2003	6,870

- (1) Mr. Robertson resigned in January of 2004. Mr. Breeding was appointed Acting Mayor. Thomas Fagan was elected Mayor in August 2004.
- (2) Re-elected in April of 2004.
- (3) James Kelleher was elected in April of 2004.
- (4) Jerry Miguel was elected in April of 2004.
- (5) Mr. Fagan was elected Mayor in August 2004. Joseph P. O'Keefe was appointed to this position in August 2004.
- (6) In December of 2002, Mr. Greer was appointed as City Administrator and also remained Police Chief.
- (7) Mr. Leichliter was reassigned as Administrative Advisor in December 2002. Mr. Leichliter was paid \$43,076 as City Administrator and \$47,980 as Administrative Advisor.
- (8) Mr. Payken resigned in August of 2003. James Eckrich was appointed as interim Director in September of 2003.
- (9) This position was established in October 2003.

In addition to the officials identified above, the city employed 104 full-time employees on June 30, 2003.

All city employees, including elected officials, are covered by a \$100,000 blanket bond. The Director of Finance and the City Clerk also each have a \$50,000 bond.

Assessed valuations and tax rates for 2002 were as follows:

ASSESSED VALUATION

Real estate	\$ 193,653,325
Personal property	35,854,675
Public utilities	<u>5,751,624</u>
Total	<u>\$ 235,259,624</u>

TAX RATES PER \$100 ASSESSED VALUATION

	Rate
General Fund	<u>\$.25</u>

The city has the following sales taxes; the rates are per \$1 of retail sales:

	Rate
General	<u>\$.0100</u>
Local Option	.0025
Capital Improvement	.0050
Park and Stormwater	.0050

The Capital Improvement sales tax will expire in 2023.